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Leveling the Playing Field for FY 2005 Cohort Default Rates

by Mary Lyn Hammer

While many people in education-related industries and political positions would like you to believe that Cohort Default Rates are an indicator of quality of education and there is a big difference between the quality of education provided by public schools versus private career schools (proprietary), the most recent data publicly released by the U.S. Department of Education shows a different story. The difference in the stories is dependent upon how you look at the data.

For the purpose of this article, we “leveled the playing field” by eliminating foreign schools and those institutions with fewer than 30 borrowers from the recently released FY 2005 Cohort Default Rate data. Although small schools are an important part of education, the numbers don’t significantly change the data except that the vast majority of these schools (over 1,500) are either private or public institutions. The inclusion of these “small school” statistics in the publicly released “averages” benefits the private and public sectors by making their average look lower. The statistics in this article reflect the data from 4,110 institutions serving over 3.5 million students.

There are 648 institutions with FY 2005 Cohort Default Rates (CDR) over 10 percent. Of these, 351 are proprietary, 61 are private, and 236 are public. The percent of schools whose default rates went from under 10 percent for FY 2004 to over 10 percent for FY 2005 were 40.2 percent for proprietary, 47.5 percent for private, and 31.8 percent for public. Within the total group, the percent of schools whose CDRs increased were 68.9 percent for proprietary, 73.8 percent for private, and 60.2 percent for public.

The proprietary schools experienced the largest percent of rates that decreased from over 10 percent for FY 2004 to under 10 percent for FY 2005, showing 35.8 percent for proprietary, 22.0 percent for private, and 26.5 percent for public.

The parallels don’t stop there. We also analyzed the schools with Cohort Default Rates between 8 percent and 10 percent for FY 2005. These are the next “batch” of institutions that are potentially in danger of going over 10 percent. There are 394 institutions with FY 2005 Cohort Default Rates between 8 percent and 10 percent. Of these, 167 are proprietary, 29 are private, and 198 are public. The percent of schools whose default rates went from under 8 percent for FY 2004 to over 8 percent for FY 2005 were 43.7 percent for proprietary, 62.1 percent for private, and 40.4 percent for public. Within the total group, the percent of schools whose CDRs increased were 55.1 percent for proprietary, 65.5 percent for private, and 56.6 percent for public.

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As you can see, the data reflects parallels between the proprietary and public sector in every area where increases in default rates occur. Based on these trends, we can anticipate that even larger numbers of institutions will experience increases in future Cohort Default Rates when record-low interest rates are not available, and Federal and lender budget cuts will surely adversely affect the borrowers' ability to pay. Knowing these parallels may make the difference for the proprietary schools should lender access issues surface again.

Active, early intervention may be the best hope for controlling these increases. Consistent, informative borrower education processes during school and throughout the Cohort Default Rate measuring period has always been the best method of preventing student loan defaults.

MARY LYN HAMMER's belief that *education is the vehicle for making dreams come true* has led her in a passionate fight that began in 1987, for identifying problems in the higher education industry and finding solutions to ensure future participation for all students. Her innovative "Hands On" Default Management Program is recognized by the Department of Education for its remarkable results. Ms. Hammer is the owner, founder, president and CEO of Champion College Solutions, an international company offering default prevention, job placement verification, skip tracing, education debt recovery, and consulting services.

Ms. Hammer has actively worked with the U.S. Congress and the U.S. Department of Education on every "Reauthorization of the Higher Education Act" from 1988 to date and has served as a negotiator in several USDOE Negotiated Rulemaking sessions on behalf of private postsecondary institutions and the students who they serve. Her accomplishments include the 1989 nomination for the Member of the Year for NATTS, the 1998 Outstanding Associate Member for the Arizona Private School Association (APSA), the 2000 Best Associate Member Participation for the APSA, the Millennium (2000) and 2006 editions of *Who's Who in Executives and Professionals,* the 2000 *Wall Street Journal's* Businessman of the Year Award for Arizona, and the 2005 CCA National Achievement Award for the Allied Member of the Year. She has been elected three times and currently serves on the board of directors for the Career College Association (CCA). Additionally, she serves on the board of directors for the Northwest Career Colleges Federation (formerly WFPCSC) and is the chairman of the board for the HEAL (Higher Education Allied Health Leaders) Coalition.

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